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(DOGM FILE COPY)

Alfers & Carver, LLC
Attorneys At Law

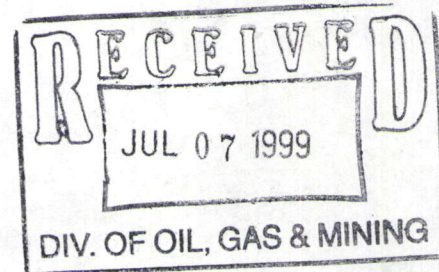
Equitable Building
730 17th Street, Suite 340
Denver, Colorado 80202

Tel: (303) 592-7674

Fax: (303) 592-7680

June 29, 1999

VIA AIRBORNE



Mr. Tom Mitchell
Office of the Attorney General
Natural Resources Division
160 East 300 South
Fifth Floor
Salt Lake City, Utah 84114

0013-0023

Re: Our client: Western States Minerals Corporation
Drum Mine Site Reclamation Proposal

Dear Tom:

This letter and the attached documents follow up on our recent telephone conversation. The history behind the materials that are attached may be summarized as follows.

On April 13, 1998 our client, Western States Minerals Corporation, entered into a formal Settlement and Reclamation Agreement with DOGM, DWQ and BLM. That agreement allocated reclamation responsibility for the Drum Mine Site between WSMC and DOGM/JUMBO, and it outlined the process pursuant to which reclamation would take place. After that agreement was finalized, WSMC implemented the sampling program set out in the document. The results from the sampling were then used by WSMC, BLM and DOGM to revise and refine the proposed reclamation plan.

During this process it became apparent that the bond forfeited by Jumbo would not be sufficient to fund its portion of the reclamation obligations at the site. It also became obvious that it would be more efficient and cost-effective to reclaim the site as part of a unified effort, rather than have WSMC and DOGM separately reclaim their respective halves.

At DOGM's request, on February 9, 1999, we met with representatives of DOGM, DWQ and the BLM in Salt Lake to discuss these issues. In essence, the

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agencies requested that WSMC develop a proposal pursuant to which it would be willing to undertake reclamation of the entire site. WSMC agreed to do so.

After the Salt Lake meeting, technical representatives of WSMC met at the site with agency representatives to discuss ways in which the existing reclamation plan could be modified to make it more cost-effective, while still meeting agency reclamation requirements. WSMC then put the proposed amended reclamation plan out for bid. After finally receiving bids on the proposal, WSMC formulated the proposal that was requested in the February 9 meeting. That proposal is attached.

The proposal consists of two parts. The first consists of a proposed amendment to the April 13, 1998 Settlement and Reclamation Agreement. The major thrust of the amendment is a reallocation of reclamation responsibilities. Instead of dividing the site in two parts (as the original settlement agreement does), this proposal will divide the process into two parts, with WSMC responsible for the first (construction) phase of the project, and the Agencies responsible for the second (monitoring) phase. Because the costs of construction dwarf those of monitoring, the proposal requires DOGM to pay to WSMC all amounts derived from the Jumbo bond, and it calls for BLM to provide additional funding as well. Since we do not yet know the amounts available from the bond, we are not yet in a position to know how much additional funding will be required to make the proposal viable.

Even after taking into account payment of bond proceeds and BLM funding to WSMC, the attached proposal anticipates that WSMC will be taking on a greater cost burden by agreeing to perform all aspects of the construction phase of the project. Therefore, an essential component of the proposal is that after WSMC successfully completes the construction phase (and complies with all performance standards spelled out in the Reclamation and Closure Plan) the Agencies will then take over complete responsibility for the site, release WSMC from all remaining reclamation obligations in the State, and release all WSMC bonds currently held by DOGM.

The second component of WSMC's proposal consists of the revised Reclamation and Closure Plan. That document reflects the modifications agreed to in the field by DOGM and BLM, it provides detailed information regarding costs and sampling results, and it specifies in detail the performance standards that WSMC will have to meet to complete its obligations under its proposal.

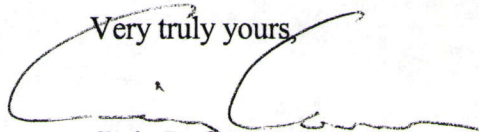
We believe that the attached proposal sets out a practical plan that will accomplish full reclamation at the site, on terms that are highly attractive to the Agencies. By copy of this letter I am forwarding copies of the full proposal to Wayne Hedberg (DOGM), Bruce Hill (DOI Solicitor) and Rex Rowley (BLM Area Manager). I am also

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providing you with two extra copies in case you wish to provide them to DWQ, the Board or its counsel, or any other individuals.

Once you have had the opportunity to review this proposal and discuss it with your clients and BLM, please give me a call to discuss how we should proceed next. We are, of course, available for another meeting in Salt Lake if you believe that would be a productive means of finalizing an agreement.

Very truly yours,



Craig R. Carver

Enclosures

cc w/ encl:

Mr. D. Wayne Hedberg

Bruce Hill, Esq.

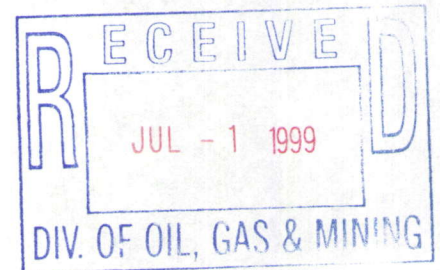
Mr. Rex Rowley

cc w/o encl:

Mr. John F. Carmody

Mr. E. M. Gerick

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FIRST AMENDED

SETTLEMENT AND RECLAMATION AGREEMENT

BETWEEN AND AMONG

WESTERN STATES MINERALS CORPORATION

AND

THE UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND

MANAGEMENT

and STATE OF UTAH, DEPARTMENT OF NATURAL RESOURCES, DIVISION OF

OIL, GAS AND MINING and DEPARTMENT OF ENVIRONMENTAL QUALITY,

DIVISION OF WATER QUALITY

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This First Amended Settlement and Reclamation Agreement (the "First Amended Agreement") is entered into between and among WESTERN STATES MINERALS CORPORATION ("Western") on the one hand and the UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT ("BLM"), and THE STATE OF UTAH, DEPARTMENT OF NATURAL RESOURCES, DIVISION OF OIL, GAS AND MINING ("DOGM") and DEPARTMENT OF ENVIRONMENTAL QUALITY, DIVISION OF WATER QUALITY ("DWQ") (BLM, DOGM AND DWQ are each individually referred to as an "Agency," and are collectively referred to herein as the "Agencies") on the other.

RECITALS

The Utah State Director of the BLM issued a Decision dated October 20, 1997, affirming a decision dated July 14, 1997, issued by the BLM Area Manager, and ordering, *inter alia*, that Western submit a plan of operations to reclaim specified portions of the Drum mine site in Millard County, Utah.

DOGM commenced formal adjudicatory proceedings (Docket No. 97-009, Cause No. M/027/007) to obtain, *inter alia*, reclamation by Western of the specified portions of the site.

DWQ reviewed and commented upon proposed reclamation plans for the Drum mine site in order to reduce the possibility that there could be any significant long-term discharge of contaminants to the subsurface from the specified portions of the site.

Western complied with the decision of the BLM State Director by submitting a plan of operations and entering into a Settlement Agreement dated April 13, 1998 to reclaim specified portions of the Drum site in the manner required by the BLM's governing laws and regulations. To that end, Western committed to perform the obligations specified in such Agreement, and it commenced performance of those obligations by submitting a sampling plan to the Agencies and performing the sampling called for in such plan. The results of the sampling have now been used to develop a suitable plan of operations pursuant to which Western will reclaim the site, in the manner set forth herein.

All parties entered into the original Settlement Agreement to avoid the expenses, delays and other inefficiencies involved in adjudicating past, present and future disputes over Western's reclamation responsibilities at the Drum mine site. To accomplish that goal, the parties agreed to settle and resolve all such disputes, and to terminate and resolve all pending formal adjudicatory proceedings before the Agencies by entering into that Agreement.

Since executing the original Settlement Agreement, the parties have obtained and analyzed the results of Western's sampling program, they have utilized such results to revise and refine the Reclamation Plan for the site, they have obtained and evaluated cost estimates for implementing the construction phase of the reclamation plan, and they have negotiated a revised division of responsibilities among themselves designed to make reclamation of the site more cost effective, efficient and beneficial for the environment.

The results of such negotiations are documented in this First Amended Agreement, the terms of which supersede and replace those of the original Settlement Agreement.

Western's performance of the obligations imposed upon it in this First Amended Agreement shall constitute full, complete and final compliance by Western of all obligations with respect to the Drum mine site that have been or may be imposed upon it by any of the Agencies.

NOW, THEREFORE, for and in consideration of the mutual covenants set forth herein, the parties agree as follows:

1 Coordination of Agency Determinations To Be Made Under the Agreement.

1.1 Lead Agency.

As specified in the State Director's October 20, 1997, decision, since the Drum mine site occurs on federal land administered by BLM, BLM is and will remain the lead agent for all operations conducted on the site. Pursuant to the terms of the Memorandum of Understanding between DOGM and BLM concerning regulation of minerals mining and reclamation, BLM accepts lead responsibility for management of all operations and other obligations to be performed under this agreement. That responsibility shall be carried out in the manner set forth herein.

1.2 Notices.

Western shall submit copies of all plans and notices required under this agreement to each of the agencies at the addresses, or (where and when appropriate) by fax or e-mail as specified below.

BLM (State Office):

Mr. G. William Lamb
State Director
Utah State Office (UT-930)
Bureau of Land Management
P. O. Box 45155
Salt Lake City, UT 84145-0155
Phone: (801) 539-4010
Fax: (801) 539-4013 With cc to:

BLM (Area Office)

Mr. Rex Rowley, Area Manager
Bureau of Land Management
Fillmore Office
35 East 500 North
Fillmore, Utah 84631
Phone: (435) 743-3104
Fax: (435) 743-3135

Bruce Hill, Esq.

Office of the Solicitor
6201 Federal Bldg.
125 S. State Street
Salt Lake City, UT 84138-1180
Phone: (801) 524-5677 (ext. 228)
Fax: (801) 524-4506

DOGM:

Mr. D. Wayne Hedberg
Permit Supervisor
Division of Oil, Gas and Mining
1594 West North Temple, Suite 1210
Box 145801
Salt Lake City, Utah 84114-5801
Phone: (801) 538-5286
Fax: (801) 359-3940

With cc of notices and cover letters to:

Mr. Tom Mitchell
Office of the Attorney General
Natural Resources Division
160 East 300 South
Fifth floor
Salt Lake City, Utah 84114
Phone: (801) 366-0216
Fax: (801) 538-7440

DWQ:

Mr. Don Ostler, Director
Department of Environmental Quality
Division of Water Quality
288 North 1460 West
Salt Lake City, Utah 84116
Phone: (801) 538-6170
Fax: (801) 538-6715

Notices shall be provided to Western at the following address or fax:

WESTERN STATES MINERALS
CORPORATION
Attn: John F. Carmody
4975 Van Gordon Street
Wheat Ridge, CO 80033
Phone: (303) 425-7042 ext. 23
Fax: (303) 425-6634

With cc to:
Craig R. Carver
Alfers & Carver, LLC
730 17th Street, Suite 340
Denver, CO 80202
Phone: (303) 592-7674
Fax: (303) 592-7680
e-mail: ccarver@alfers-carver.com

1.3 Administration of the Agreement.

All responses to be provided by the Agencies to Western under this agreement will be coordinated through BLM. Upon receipt of and prior to approval of any proposals submitted by Western hereunder, or any revisions thereof, the BLM will consult with and give due consideration to timely comments from DOGM and DWQ. If DOGM or DWQ cannot provide comments within 30 days of receipt of the proposal, BLM will proceed independently in processing it. Should there be any disagreement between any of the Agencies, BLM will take the lead in conducting whatever meetings or negotiations are necessary to resolve the problems, including raising the problem to the directors of the agencies for resolution, if necessary.

The Agencies shall inspect jointly or independently for compliance with all obligations of Western hereunder, and shall promptly notify the other agencies of operations not complying with such obligations.

2 Tasks To Be Undertaken By Western; Termination of This Agreement; Release of Western.

The parties have agreed upon a revised Reclamation Plan, a copy of which is attached as Exhibit A. Western shall perform all obligations specified in such Plan through completion of the Reclamation section thereof.

Western shall notify the Agencies upon completion of its obligations hereunder. BLM shall promptly inspect the reclaimed area with Western and will then notify Western within thirty days of receipt of such notice, after consulting with DOGM and DWQ, if it concurs that Western has successfully completed all such requirements, or, if it does not, then what requirements remain to be met. At such time as BLM and DOGM have concurred in writing that Western has successfully completed all its requirements hereunder, then DOGM shall release Western's remaining bond in conformance with Section 3.2 below, and on the date of bond release this Agreement shall terminate. Termination of this Agreement shall constitute the Agencies' full release of Western from any and all future obligations and responsibilities with respect to the Drum Mine site.

Following termination, any and all obligations to monitor or further reclaim the site shall become the responsibility of the Agencies.

2.1 Implementation.

Western shall implement the provisions of the approved Reclamation Plan as soon as practicable after execution of this First Amended Agreement by all parties.

2.2 Partial payment of Western's expenses.

As partial payment of Western's expenses allocable to those portions of the site that were the responsibility of the Agencies under the original Settlement Agreement of April 13, 1998, DOGM shall pay to Western all of the funds realized from calling the JUMBO performance bond posted with respect to the site (in the amount of \$ _____), plus all accrued interest earned

with respect to such funds, plus BLM shall contribute the sum of \$_____ as funding provided by it, equaling a total Agency contribution of \$_____, plus any accrued interest on JUMBO bond funds earned through date of final payment, as their combined contribution to the construction phase of the reclamation project. One-half of these amounts shall be paid at the commencement of construction activities, and the balance shall be paid within 15 days of submission by Western of notice of its completion of the construction phase of the project.

3 Bonding.

3.1 Adequacy of Existing Bond.

The parties desire to increase the efficiency of the reclamation process. The parties also recognize that all activities to be conducted by Western on the Drum site are to take place on or in the immediate vicinity of previously disturbed lands. Western's activities will serve to reduce the potential impacts of the existing disturbances on the environment and the costs required to be spent in the future to reclaim the site. Accordingly, for so long as Western remains in compliance with its obligations under this First Amended Agreement, the Agencies agree to accept Western's existing bond as adequate for purposes of securing Western's performance of its reclamation obligations hereunder. Should any of the Agencies determine that Western is not performing in conformance with its obligations under this Agreement, then at the conclusion of the dispute resolution and appeal procedures specified in Article 6 below the Agencies may separately establish any bonding obligations authorized under their governing law and regulations.

3.2 Release of Bond.

Within 45 days of the responsible Agencies' approval of Western's completion of its reclamation obligations hereunder, then DOGM shall release all bond funds provided to it by Western prior to the date of execution of this First Amended Agreement to secure reclamation of sites located within the State of Utah.

4 Status of Pending Administrative Proceedings.

Submission of its proposed Sampling Plan and execution of the Original Settlement Agreement by all parties constituted timely compliance by Western of all requirements specified in the State Director's October 20, 1997, decision and the Area Manager's decision affirmed by such decision, and brought Western and its operations into compliance with Federal regulations.

Execution of the Original Settlement Agreement and this First Amended Agreement by all parties resolves and settles all issues between Western, DOGM and the Board of Oil, Gas and Mining, in the formal proceeding instituted before the Board entitled "In the matter of the petition filed by the Division of Oil, Gas and Mining For an Order requiring Immediate Reclamation of the Drum Mine From Western States Minerals Corporation and Jumbo Mining Company, Millard County, Utah," Docket No. 7-009, Cause No. M/027/007.

Nothing contained in this Agreement shall release Jumbo Mining Company from any proceedings, liabilities or obligations pending or asserted or to be asserted by any of the parties to this Agreement.

5 Relationship Between Western, BLM and the Claimant/Operator of the Remaining Portions of the Drum Mine Site.

The activities undertaken by Western at the Drum Mine site are being conducted on public lands of the U.S., managed by the BLM and regulated by the Agencies. Pursuant to laws and regulations governing such lands, the BLM and DOGM have issued orders requiring that Western undertake the reclamation activities described in this Agreement. All operations conducted by Western in conformance with such plan and any other BLM or DOGM directives are undertaken under the authority of BLM and DOGM. The Drum Mine site is covered by lapsed unpatented mining claims and the portions of the site not covered by Western Reclamation Areas were formerly operated by Jumbo Mining Company. Jumbo has filed for liquidation under Chapter 7 of the United States Bankruptcy Code. Consequently, the parties to this Agreement do not anticipate that any entity will operate or seek to operate the mine site during the construction phase of the Reclamation Plan. However, should Jumbo or any successor-in-interest operate or propose to operate the site or any portion thereof, then BLM and DOGM shall exercise their authority and discretion under all applicable laws and regulations to either: (1) transfer all or any portion agreed to by Western of Western's obligations hereunder to the operator under such terms and conditions as are acceptable to BLM and DOGM; or (2) regulate operator's activities in such a manner as to prevent it from interfering with the performance of Western's obligations hereunder. In the event of a transfer of all or any portion of Western's obligations hereunder to the operator, then such transfer shall, as to the lands and obligations affected, constitute a full, complete and irrevocable release of Western from any further obligations with respect to such lands and requirements.

6 Dispute Resolution and Appeal Procedures.

6.1 Notice of Breach.

In the event that any of the Agencies concludes that Western is not complying with its obligations hereunder, that Agency shall provide written notice to Western containing the full details of all breaches asserted to have occurred. Western shall have 30 days after receipt of such notice to either cure the asserted breaches, or dispute the assertions. Should Western dispute any of the breaches specified in the Agency notice, it shall provide a responsive notice to the Agency within 30 days of Western's receipt of the Agency's notice, setting forth the bases for its disagreement.

6.2 Mediation of Disputes.

Upon receipt of a responsive notice from Western, the Agency may work informally with Western toward resolution of the dispute. Whether or not the Agency chooses to work with Western toward resolution, Western may, at any time after receipt of a responsive notice, invoke the mediation provisions of this Agreement by providing notice thereof to the Agency. Mediation shall be accomplished in the manner set forth in this Section 9.2.

6.2.1 Appointment of Mediator.

Within 3 days after receipt of Western's notice invoking mediation Western and the Agency shall meet and seek to reach agreement on the appointment of a mediator. In the event of failure to reach such agreement, each party shall present simultaneously to the other a list of five names of proposed mediators, ranked in order of preference (1 highest and 5 lowest). Each proposed mediator shall be a third party professional engineer registered in the State of Utah, with expertise in the issues raised by the dispute. The mediator selected shall be the individual who appears on the lists of both parties, with the highest total ranking. In the event that no engineer appears on both lists, then the process shall be repeated until a mediator is selected.

6.2.2 Mediation Procedures.

Within 30 days of selection of a mediator, the parties shall submit and exchange a written statement of their respective positions, along with all data and documentation deemed appropriate. Within 10 days of the written submission, the parties shall meet with the mediator and follow such procedures as are specified by the mediator in an effort to resolve the dispute. If, at the end of the mediation the parties are unable to reach agreement, then within 10 days thereafter the mediator shall submit to each party a written statement containing his or her recommended resolution of the dispute, and the bases therefore.

6.2.3 Costs of Mediation.

All fees and costs of the mediator shall be paid by Western.

6.2.4 Procedures in the event that mediation does not resolve the dispute.

If the parties to a dispute are not able to resolve their disagreement through mediation, then the Agency shall be entitled to issue such decisions and institute such procedures as are permitted by its governing rules and regulations to enforce the obligations of Western under this Agreement and under the Agency's laws, rules and regulations. In any such procedures, the mediator's recommended resolution shall be admissible evidence and both it and the testimony of the mediator may be submitted by either party.

WESTERN STATES MINERALS
CORPORATION

By _____
Name _____
Title _____

UNITED STATES DEPARTMENT OF THE
INTERIOR, BUREAU OF LAND
MANAGEMENT

By _____
Name _____
Title _____

THE STATE OF UTAH, DEPARTMENT OF
NATURAL RESOURCES, DIVISION OF
OIL, GAS AND MINING

By _____
Name _____
Title _____

DEPARTMENT OF ENVIRONMENTAL
QUALITY, DIVISION OF WATER
QUALITY

By _____
Name _____
Title _____